India Gas Solutions Private Limited
(CIN - U40200MH2011PTC224011)

14 October 2020

Ms. Vandana Sharma
Secretary
Petroleum and Natural Gas Regulatory Board
New Delhi - 110001

Dear Madam,

Sub: Comments on draft "PNGRB (Determination of Transportation Rate for CGD and Transportation Rate for CNG) Regulations, 2020".

We thank you for inviting stakeholder comments on the Petroleum and Natural Gas Regulatory Board (Determination of Transportation Rate for CGD and Transportation Rate for CNG) Regulations, 2020" **("Regulation")**.

The proposed Regulation is another step to support long-term development of the gas sector given the clarity it imparts on access to CGD networks post exclusivity period.

It is our understanding that many Geographical Areas (GAs) have / are set to see expiry of the marketing exclusivity period. Consumers in these GAs should benefit from higher supply side competition. In this regard, to provide visibility, as a first step PNGRB should host easily accessible database at one place on their website, reflecting CGD networks which have been either been declared common or contract carrier or will be declared common or contract carrier in a year's time. We believe to fully achieve larger government of India objectives, and ensure benefits of enabling policies flow to the end consumer the following needs to be further examined and addressed in the proposed draft Regulation:

Incentivizing efficiencies: Draft Regulation envisages the transportation rate shall be calculated based on the "Cost of Service" (COS) methodology considering a normative post-tax rate of return of twelve percent on capital employed. Given authorized entities themselves are required to calculate the tariffs, The Regulation must provide for a built-in framework wherein entities are incentivized to continuously reduce costs and operate efficiently.

To this end, it would be important for PNGRB to assess the efficacies of costs of the regulated asset base through a suitable oversight mechanism (e.g. benchmarking) and adopting efficiency targets. This would incentivize authorized entity to operate in a cost-effective way and benefit the end customers through lower tariffs.

Global examples highlight a built-in system of incentivization enables a regime wherein consumers always obtain most efficient prices. A mechanism can adopted wherein authorised entities can retain savings below the set benchmarks, which will enable entities to adopt a most cost-effective operational model. For example, in France, Distribution System Operators (DSOs) are given efficiency led incentive targets wherein at the end of the regulatory period (4 years), the DSOs can keep 100% of operating costs savings (or losses).

Further in line with global practices, the cost of service model matures, it would be important to integrate factors like customer satisfaction, unplanned availability time, transparency obligations and quality of data and environmental aspects in the tariff setting mechanism.

Governance framework to determine tariff: The draft Regulation envisages authorized entity shall determine the transportation rate for CGD and CNG in a CGD network. While this is a welcome step, it would be important to detail out a dispute resolution framework envisaged under section 4 (4) if any shipper is not satisfied with the published tariffs.

Clarity on "normative" aspects in tariff determination: Draft Regulation provides that CNG and CGD network tariffs are to be determined by considering the normative level of capital employed and the normative level of operating expenses determined by PNGRB. The Regulation should therefore provide clarity on how normative costs will be assessed, cost which will be allowed / disallowed among others. In addition, the Regulation needs to state the basis upon which these normative costs are to be considered for the purpose of ongoing annual tariff determination by entities and a mechanism on how the final tariff will be determined if any entity does not take into account the normative level of capital employed and operating expenses.

Further, Regulation should specify how additional investments would be treated. These additional investments should be closely examined by the PNGRB, which can be done either ex-ante (the investment is agreed with regulator upfront), or ex-post. If ex-post, then any expenditure deemed to be excessive should not be allowed.

Reconciliation of current and previous transportation rate of CGD and CNG: While the draft Regulation envisages reconciliation of current and previous transportation rate of CGD and CNG it is shy on providing details. It would be important to integrate enabling provision, and the associated frequency of this reconciliation.

In addition to the above, for enabling level playing field between existing authorised entity and new marketer following aspects need to be considered to support market liberalization and gas demand growth

Access to all unutilized capacity: To usher enhanced competition, liquidity and lower gas prices for end consumers, it would be imperative to create a regime, in line with the developed markets, wherein players can access all unutilized capacity in the pipelines model on 'use it or lose it' principles rather than restricting the access to 20%.

Minimum service obligation: There should be clear service obligation for augmenting capacity and last mile connectivity for new connections requested under open access such that new connections are provided in a timely manner without discrimination, possibly backed by a firm contract offtake obligation. The Regulation must ensure that authorised entity does not show any undue preference towards, or undue discrimination against, or prevents competition in the network.

We would share specific recommendations on other aspects of market development, growing gas markets and leveling the playing field in our response to the public consultation on the "Petroleum & Natural Gas Regulatory Board (Access code for City or Local Natural Gas Distribution Networks) Regulations, 2020.

Yours sincerely,

Utpal Maru
Chief Commercial Officer